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UNCLAS SECTION 01 OF 03 ABUJA 002216

SIPDIS

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E.O. 12958: N/A

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SUBJECT: NIGERIA: CHRISTMAS EVE ECONOMIC ROUND-UP

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1. (SBU) Summary: We report another telecommunications victory for a United States company and another GON milestone in transparency as CODEM systems won a USD 28 million telecommunications contract after months of wrangling over alleged corruption by GON officials and European companies. U.S. air carrier World Airways, however, is likely to cease operations to and from Nigeria and the United States on December 26 as a response to USD 1.8 million in arrears owed the airline by its Nigerian booking agent Ritetime Aviation. GON officials' solicitations for holiday cash payoffs are reportedly making the holiday season expensive for businessmen and industrialists in the economically depressed northern city of Kano, making unemployment worse for restless young Muslims, and a main direct road link between the North and South, Kogi State's 27-year-old poorly maintained Murtala Mohammed Bridge has been reduced from four to two lanes of traffic. End summary.

CODEM Wins USD 28 Million Telecommunications Deal

2. (SBU) On December 15 the GON awarded U.S.-based CODEM Systems, and its Nigerian partner Kabtel, a USD 28 million contract to provide communications equipment to the Ministry of Communications (MOC). According to Embassy sources, the MOC originally awarded the contract to the German company Ferrostaal early this year due mainly to Ferrostaal's several hundred thousand USD payoffs to MOC officials. After protests from CODEM and several Embassy advocacy letters on CODEM's behalf to President Obasanjo, the Office of the President assigned Oby Ezekwesili, the Senior Special Assistant to the President on Budget Monitoring and Price Intelligence Unit, to review the case and conduct a second bidding round.

3. (SBU) During the December 15 second bidding round at the Presidency, Ezekwesili chided MOC officials for again conducting an "unethical and non transparent" bidding process. Post had a similar experience with the MOC while advocating for a multi-million dollar Motorola contract earlier this year. Three bidders, Ferrostaal (German), Thalys (French) and CODEM, presented bids. The French company was subsequently eliminated from the process because it had not secured financing, while Ferrostaal's bid was nearly USD 4 million more than CODEM's. Ezekwesili, who prequalified the three bidders on technical grounds, awarded CODEM the contract based on its low bid price and financial package.

4. (SBU) Ezekwesili applauded the Embassy for sending Econoff to the bidding process, quipping that the German and French Embassies did not seem interested in a transparent bidding process. Ezekwesili stated several times that Nigerian business and government have a lot to learn from the United States. She also said European companies played a major role in cheating Nigerians out of money in less than transparent contracts over the years, due mainly to bribes and the GON's lack of technical and computer expertise. Nonetheless, she invited all three companies to stay engaged in Nigeria's telecommunications industry. She advised CODEM and Econoff that Nigeria will be watching to see if the United States firm can "deliver" on this contract.

World Airways Likely to Halt Air Service to Nigeria

5. (SBU) World Airways Vice-President of Operations Robert DuBois informed Econoff that the airline will likely announce December 26 that it will at least temporarily cease flight operations to and from Nigeria and the United States due to USD 1.8 million in arrears owed the carrier by its Nigerian booking agent, Ritetime Aviation. World Airways, which began operating round-trip flights from Lagos to New York, Atlanta and Houston in mid-2003, reported increasing passenger numbers and profit potential, but DuBois commented that Ritetime's arrears "represent a significant financial exposure, and we (World Airways) must adhere to prudent financial procedures and practices." DuBois stated that World Airways is committed to keeping its Nigeria-United States routes, but he doubts that World Airways can get another booking agent within 4 to 6 months. World Airways,

which operates USG charter flights and lucrative oil-business routes into Africa, says it does not have the infrastructure to ticket in Nigeria and therefore must work through a booking agent.

16. (SBU) Ritetime's Chairman Peter Obafemi has a checkered past in Nigerian aviation. For example in 2000, an Obafemi-led consortium won a GON contract to construct the National Aircraft Maintenance Center (NAMC) in Lagos. Embassy sources said Obafemi paid cash up front to former Minister of Aviation Kema Chikwe and Vice President Atiku in order to win the bid. The U.S.-based Obafemi then tried to sell his rights to construct and operate NAMC to several aircraft maintenance companies, but without luck. Obafemi had neither the financial nor technical partners to construct the estimated USD 500 million NAMC project.

14. (SBU) Comment: Ritetime's failure to pay World Airways is unfortunate, but European carriers (British Airways, KLM, Virgin) -- which have recently dropped prices to compete with World Airways' lower fares -- will welcome the carrier's exit from the Nigerian market. World Airways officials stated that its U.S.-Nigeria route was potentially one of the airline's most profitable. Hopefully a short-term deal can be reached between World and Ritetime to continue service, but that seems unlikely for now. With the demise of World Airways, Air Afrique and Ghana Airways services, the Nigerian and West African market is under-served and ripe for U.S. carriers to consider operating direct service from Nigeria to the United States. End comment.

Kano Atmospherics: Little Cheer During the Holiday Season

18. (U) With roughly 20 major industries operating, down from a high of 130 industries in the early 1980s, Kano's industrial sector decline is stoking unemployment, economic decay and leech-like corruption. During visits to Kano with a major Kano-based textile manufacturer and a shoe factory operator during the Muslim holiday Eid-El-Fitr in November and in the weeks before Christmas, Econoff visited Kano's three industrial parks and met with business leaders. Several business leaders stated that high transportation and operating costs -- plants must run on generators because the national power grid constantly cuts out and GON redundant state and federal bureaucrats needs to be paid off or they will hinder plant operations -- were their main impediments. Nigerian products thus cannot compete in quality and price with imported goods, especially goods brought in illegally, said one businessman. The Abacha regime decimated industry in Kano by commandeering plants or simply deporting Kano's mainly Lebanese/Syrian industrialists, stated a Lebanese businessman. Since Obasanjo took power in 1999, little has been done to improve or develop business in Kano, added a Chinese shoe manufacturer.

19. (SBU) When asked what businessmen do during the holiday season, a Lebanese businessman said, "hide." The businessman added that whether it is a Christian or Muslim holiday, all levels of Kano's mainly Muslim local, state and federal government officials need to be paid off. A Lebanese businessman said that this was corruption, but that it is how business is done in Nigeria. A Lebanese in Nigeria supplying the Ministry of Education stated that he usually gives a Minister or Governor USD 5,000 to USD 10,000 around the Christmas holidays, depending on how important he or she was to his operation, while other junior officers received about USD 1,000. Any major business firm has a person dedicated solely to paying often hundreds of thousands of dollars a year, he thought, to clear inputs through customs, to ensure that the police do not seize products to or from the plant, and to gain security cooperation from restive religious or traditional leaders in the area who need a new car or spending money. With Kano sliding into economic decay, the remaining, mainly foreign, businessmen Econoff met in Kano said requests for payoffs during the holidays and other payoffs are causing them to add 25 to 40 percent in their operating costs for kickbacks. A Lebanese borehole drilling contractor said she mainly deals with Nigerian brokers who kick back 50 percent of the contract to state or federal officials (depending on the project), take a 25 percent cut for themselves, and employ the Lebanese to do the actual work for the remaining 25 percent. Everyone makes money, she stated.

10. (U) The mood among all Kano businessmen Econoff spoke with was pessimistic. While admitting there is still a lot of money to be made in Nigeria, the businessmen pointed out that foreigners operate almost all major industries in Kano. Nigerian-owned businesses such as the Dangote group are all well connected to the ruling PDP party through cash contributions for which they benefit from import bans on foreign products, i.e., cement. Kano's decline, in part, can be attributed to payoffs and business leaders being too close to members of the ruling elite who fall from power, concluded a Lebanese businessman. But Nigeria needs Lebanese industrialists just like the rest of West Africa, a businessman said, with whom Nigeria would not produce

anything except oil. A Lebanese merchant, born in Nigeria with a Nigerian passport, concluded that the GON's biggest mistake was not allowing all its citizens to participate in politics and government. "Nigerians will never accept me as a citizen", he said, "so we (Lebanese, Indians, Chinese) are here to make money and work within this system".

11. (SBU) Comment: The North's economic decline bodes ill for the thousands of young men and women graduating from universities and secondary schools yearly only to be unemployed or underemployed. Urban unemployed youth have sparked major outbreaks of religious violence in both Kano and Kaduna since 1999. Further economic decay in Kaduna, Zaria and Kano seems unavoidable in the near term. End comment.

Main North-South Link Threatened

11. (U) One of the most important bridges connecting northern Nigeria to the South and East, Kogi State's 27-year-old Murtala Mohammed Bridge is in such poor structural condition that it is disrupting transportation and commercial links. The bridge near Lakoja, the only way across the river for traffic from Lagos to the north, has been reduced from four lanes to two because of numerous missing steel expansion joints and car-sized pot holes that have weakened the structural integrity of the span. GON officials stated that the Ministry of Works plans to reinstall lights to make the bridge safer at night. However, a Ministry of Work officials stated that a new bridge will likely be constructed in the "near future" under a Build, Operate and Transfer (BOT) arrangement. In the meantime, the Ministry will use money collected from bridge tolls to repair the existing structure.

12. (SBU) Comment: The poor condition of the road south from Abuja coupled with the bridge's reduced capacity have caused over 200 accidents in the month of November alone. With Nigeria's rail system in disrepair, almost all trade from South to North goes by this dangerous road and bridge, adding further costs to Northern consumers and travelers. It is unlikely that the Ministry of Works can do the necessary repairs on the bridge using meager toll collections. The GON has proposed a 1.5 Naira per liter tax on gasoline for road improvements, but perhaps only a collapse of the bridge will spark the necessary GON funding for bridge repairs. End comment.
Roberts